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Chief Executive Officer

January 10, 2014

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From: William T Fujioka
Chief Executive Officer

STATE BUDGET - PRELIMINARY ANALYSIS OF THE GOVERNOR'S FY 2014-15 PROPOSED BUDGET

OVERVIEW

On January 9, 2014, Governor Jerry Brown released his \$154.9 billion FY 2014-15 Proposed Budget, which includes \$106.8 billion in State General Fund expenditures, \$2.6 billion in total reserves, which includes \$1.0 billion for the regular reserve, and proposes making an additional \$1.6 billion payment for the Proposition 58 Budget Stabilization Account. While the Governor's January Budget seeks to maintain the fiscal stability and restraint of the last couple of years, State General Fund spending is estimated to increase by 8.4 percent in FY 2014-15.

STATE GENERAL FUND EXPENDITURES				
	FY 2013-14	FY 2014-15	Dollar Variance	Percentage Variance
Total Resources Available	\$102.7 billion	\$108.7 billion	\$6.0 billion	5.8%
Total Expenditures	\$98.5 billion	\$106.8 billion	\$8.3 billion	8.4%
Fund Balance	\$4.2 billion	\$1.9 billion	-\$2.3 billion	--

Additional Economic Recovery Payment	--	\$1.6 billion	\$1.6 billion	100%
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In releasing his budget plan, the Governor announced that the three prior budgets have addressed the State's \$20.0 billion deficit through temporary taxes approved by the voters in 2012 and major program cuts primarily in corrections, health and human services and education. The Governor indicated that as a result of these actions the State is now on its most stable fiscal footing in more than a decade, and that with the improved economy, the State will experience a windfall of \$4.0 billion in additional revenues above the amount normally received. **Most importantly, the Governor's FY 2014-15 Budget Plan contains no significant reductions to County-administered programs.**

The Governor cautioned that historically, surges in capital gains tend to be extremely volatile, and noted that the quarter-cent State sales tax approved in Proposition 30 will expire at the end of 2016 and the increase in the Personal Income Tax on the State's wealthiest residents will expire in 2018. The Governor emphasized that maintaining fiscal stability will require constraint and noted that there are numerous risks which threaten a stable State budget, including the remaining budgetary debt and billions of dollars in long-term unfunded liabilities.

The Governor's Budget contains major proposals in the following areas:

- Education - provides \$9.7 billion in additional funding for K-12 education. Most of the funding will be directed to school districts serving low-income students, English language learners, and youth in foster care;
- State Debt Reduction - directs \$11.0 billion to repay State debt with the goal of fully paying down the budget borrowing by FY 2017-18;
- Rainy Day Fund - proposes to work with the Legislature on placing a Constitutional amendment on the November 2014 ballot seeking voter approval to strengthen the existing Rainy Day Fund structure by tightening rules on when deposits are made and when withdrawals are allowable;
- Health Care Reform Implementation - proposes \$670.0 million in new State General Fund spending to fund the expansion of Medi-Cal benefits, including mental health, substance uses disorder, adult dental, and specialized nutrition services;
- Strengthening Infrastructure - proposes \$815.0 billion in one-time funding for critical deferred maintenance projects in State parks, highways, local streets and roads, K-12 schools, community colleges, courts, prisons, State hospitals and other State facilities; and

- Climate Change and Water Sustainability - proposes to invest \$850.0 million in Cap and Trade auction proceeds to support existing and pilot programs that will reduce greenhouse gases, with a particular emphasis on assisting disadvantaged communities, and proposes \$619.0 million to expand water storage capacity, improve drinking water in communities where supplies are substandard, increase flood protection, and increase regional self-reliance.

Estimated County Impact

Based on a preliminary analysis of the information available at this time, it appears that the County will not experience a significant loss of funding or program reductions from any of the Governor's Budget proposals.

This office is currently working with affected departments and will keep the Board advised of any potential impact on the County once additional details of the Governor's Budget are released.

Attachment I provides a summary of the Governor's proposals of interest to the County.

Key Elements of the Governor's Budget of Interest to the County

AB 109 of 2011 Program. Of significant interest to the County, the Governor's Budget contains a number of elements related to the AB 109 program that could have a direct impact on the County's efforts to implement and administer the program. Specifically, the budget addresses the following issues:

- **The Administration indicates that no additional direct resources for AB 109 are possible.**
- Maintains the AB 109 base allocation of \$934.1 million in FY 2014-15, with FY 2013-14 growth estimated at \$64.3 million and FY 2014-15 growth estimated at \$159.8 million statewide. Attachment II is a chart of the estimated statewide 2011 Realignment allocations by program.
- Includes \$500.0 million in additional funding for jail capacity expansion of facilities, which include non-traditional beds such as treatment or reentry beds. However, the budget indicates that applications for funding will be required to document the use of pre-trial risk assessments to inform pre-trial release decisions. **This requirement may impede the County to apply for this funding as the County currently does not operate a robust pre-trial release program using a risk assessment tool.**

- Proposes legislation to require that all county jail felony sentences be a split sentence unless the sentencing court finds that a straight sentence is in the best interests of justice.
- Proposes legislation to allow offenders with county jail sentences over 10 years to serve the sentence in prison contingent on the State satisfying the prison population reduction order.
- Indicates that the Administration continues to negotiate with the Federal three-judge panel and plaintiffs to grant the State a two-year extension to meet the prison population reduction order.

Medi-Cal Expansion. The Governor's Budget assumes \$6.7 billion in Federal funding to cover 100 percent of the cost to provide Medi-Cal coverage for newly eligible adults. **The Department of Health Services (DHS) indicates that the Proposed Budget retains provisions of the County-specific formula developed by DHS and the Administration as part of the FY 2013-14 State Budget to: 1) provide a calculation to guarantee a specified number of lives in the County's health system; 2) pay 100 percent of the County's costs associated with the Medi-Cal expansion; 3) establish a savings sharing ratio of 80 percent State to 20 percent County; and 4) base costs for purposes of determining the cap on costs in the County's Board-approved DHS budget.**

In-Home Supportive Services (IHSS). The Governor's Budget includes the following proposals as a result of the recent announcement by the U.S. Department of Labor regarding new regulations, effective January 1, 2015, that require overtime pay for domestic workers;

- Proposes to prohibit IHSS providers from working overtime to control costs, among other factors. The budget indicates that as the employer for purposes of hiring, firing, scheduling, and supervising the work of the IHSS provider, this proposed restriction would require some recipients to hire and train additional providers to fully provide their authorized services. In addition, the IHSS workforce would need to increase in order to accommodate this change.
- Proposes to create a Provider Backup System to assist IHSS recipients in an unexpected circumstance to obtain a provider for continued care when their regular provider would exceed the limitations on hours worked. The budget indicates that in these circumstances, a recipient could contact the Provider Backup System for assistance in obtaining a backup provider who would be available in a short amount of time. Any services provided by the backup provider would be deducted from the recipient's authorized hours.

Each Supervisor
January 10, 2014
Page 5

The Department of Public Social Services indicates that as long as the current IHSS Maintenance of Effort structure remains in place, there would be no direct impact to the County as a result of any IHSS provider overtime costs.

State Mandates. The Governor's Budget proposes to fully eliminate the State's "Wall of Debt," which includes all unpaid costs to local governments, schools, and community colleges for unfunded State mandates, by the end of FY 2017-18. While the Governor's Budget proposes to focus solely on eliminating the school deferral and economic recovery bonds portions of the "Wall of Debt" in FY 2014-15, as well as paying down a portion of the transportation and Cap and Trade loans in FY 2014-15, **the Administration has indicated that all remaining components of the "Wall of Debt," including all mandate deferrals, will be paid off by the end of FY 2017-18. An approximate \$180.0 million is due to the County for deferred mandate costs incurred prior to FY 2003-04.**

Attachment III is a chart of the Administration's proposed Wall of Debt payments through FY 2017-18.

We will continue to keep you advised.

WTF:RA
MR:VE:IGEA:ma

c: All Department Heads
Legislative Strategist

Governor's FY 2014-15 Proposed Budget

Health

Health Care Reform Implementation. The Governor's Budget includes the following elements related to the implementation of Federal Health Care Reform which became effective January 1, 2014:

- **Medi-Cal Expansion.** Provides \$404.9 million in State General fund dollars which reflects increased enrollment resulting from the Medi-Cal eligibility changes required under the Federal Affordable Care Act and assumes \$6.7 billion in Federal funding to cover 100 percent of the cost to provide Medi-Cal coverage for newly eligible adults. **The Department of Health Services (DHS) indicates that the proposed budget retains provisions of the County-specific formula developed by the DHS and the Administration as part of the FY 2013-14 State Budget Act to:** 1) provide a calculation to guarantee a specified number of lives in the County's health system; 2) pay 100 percent of the County's costs associated with the Medi-Cal expansion; 3) establish a savings sharing ratio of 80 percent State to 20 percent County; and 4) base costs for purposes of determining the cap on costs on the County's Board-approved DHS budget.
- **Expanded Mental Health and Substance Use Disorder Benefits.** Provides \$61.3 million in FY 2013-14 and \$197.9 million in FY 2014-15 for mental health and substance use disorder service parity by offering psychotherapy, psychological testing, outpatient services to monitor drug therapy, outpatient laboratory drugs and psychiatric consultation through Medi-Cal managed care plans.
- **Medi-Cal Provider Reimbursements.** Proposes to exempt certain health care providers and services from the retroactive 10 percent reduction in Medi-Cal provider reimbursements enacted in 2011 for additional State General Fund costs of \$5.8 million in FY 2013-14 and \$36.3 million in FY 2014-15. The budget indicates that the exemptions are intended to support the delivery of services during the implementation of Health Care Reform, and would apply to physicians, clinics, specified high-cost drugs used to treat serious conditions, dental, intermediate care facilities for the developmentally disabled, and medical transportation.
- **Pediatric Dental and Vision Services Outreach.** Provides \$17.5 million to increase dental outreach activities for children up to three years of age. According to the Administration, educating parents of young children about the importance of early dental benefits should provide positive health outcomes and

result in decreased costs associated with more expensive treatment for poor dental hygiene. The budget assumes that Proposition 10 of 1998 funding will be used to fund the non-Federal share. Proposes that the State will continue to evaluate methods to improve the utilization and quality of children's vision benefits offered through the Medi-Cal program. **The Department of Health Services indicates this proposal would not impact dental health programs provided by DHS.**

- **Pregnancy Coverage.** Proposes to pay the out-of-pocket costs for pregnancy-only Medi-Cal beneficiaries who elect to receive comprehensive coverage through Covered California beginning in January 2015, for an estimated State General Fund savings of \$16.6 million in FY 2014-15. As provided in the FY 2013-14 State Budget Act, Medi-Cal beneficiaries with incomes under 100 percent of the Federal Poverty Level (FPL) are eligible to full-scope Medi-Cal coverage. Pregnancy-only Medi-Cal beneficiaries with incomes between 100 and 208 percent of the FPL will receive comprehensive health coverage through Covered California, the State's health insurance exchange.

Coordinated Care Initiative (Dual Eligibles). The Governor's Budget includes various changes to the Coordinated Care Initiative (CCI), also known as Dual Eligibles, which was established in the FY 2012-13 State Budget Act. Under the CCI, eight demonstration counties, including Los Angeles County, will coordinate care for persons eligible for both Medi-Cal and Medicare. All individuals in the demonstration counties must enroll into a Medi-Cal managed care plan in order to receive their long-term care benefits, including In-Home Supportive Services (IHSS).

The Governor's Budget proposes, among other changes, that in Los Angeles County, Dual Eligibles may voluntarily enroll in Cal MediConnect, which is a Federal demonstration project, or opt out beginning April 2014, and the remaining Dual Eligibles be enrolled beginning July 2014. The budget projects a State General Fund savings of \$159.4 million in FY 2014-15 for the CCI. **According to the Department of Public Social Services, as long as the current IHSS Maintenance of Effort structure remains in place, the County will not share any of the savings or costs as a result of the CCI.**

Public Health

Substance Use Disorder Services/Drug Medi-Cal Program. The Governor's Budget indicates that the California Department of Health Care Services (DHCS) will be seeking a waiver from the Federal Centers for Medicare and Medicaid Services to give State and county officials expanded authority to select quality substance use disorder providers. With the expanded authority offered under the proposed waiver, the State anticipates achieving improved coordination of substance use disorder treatment services and being able to build upon the experience and success of the State's specialty mental health system.

The Governor's Budget also includes \$2.2 million and 21 positions to DHCS to address: 1) program integrity concerns; and 2) the expansion of drug treatment service in the State's Drug Medi-Cal Program. In addition to DHCS' continuing effort to eliminate fraud and abuse in the Drug Medi-Cal Program through improved oversight/monitoring of the program and improved coordination with counties, the proposed additional resources for DHCS will assist in their effort to re-certify all Drug Medi-Cal providers within the State. **The Department of Public Health (DPH) indicates that no specific details regarding the proposed waiver have been provided, and it is not yet clear whether additional responsibilities and related funding will be necessary and/or provided to counties as a result of the expanded authority. This office will continue to work with DPH to determine the potential impact of the above proposals to the County.**

Social Services

In-Home Supportive Services (IHSS). The Governor's Budget includes the following proposals related to IHSS as a result of the recent announcement by the U.S. Department of Labor regarding new regulations, effective January 1, 2015, that require overtime pay for domestic workers:

- Proposes to prohibit IHSS providers from working overtime to control costs, among other factors. The budget indicates that as the employer for purposes of hiring, firing, scheduling, and supervising the work of the IHSS provider, this proposed restriction would require some recipients to hire and train additional providers to fully provide their authorized services. In addition, the IHSS workforce would need to increase in order to accommodate this change.
- Proposes to create a Provider Backup System to assist IHSS recipients in an unexpected circumstance to obtain a provider for continued care when their regular provider would exceed the limitations on hours worked. The budget indicates that in these circumstances, a recipient could contact the Provider Backup System for assistance in obtaining a backup provider who would be available in a short amount of time. Any services provided by the backup provider would be deducted from the recipient's authorized hours.

The Department of Public Social Services (DPSS) indicates that as long as the current IHSS Maintenance of Effort structure remains in place, there would be no direct impact to the County as a result of any IHSS provider overtime costs. Furthermore, DPSS indicates that additional details are needed on the proposal to create a Provider Backup System.

CalWORKs. The Governor's Budget implements the 5 percent grant increase for CalWORKs families approved as part of the FY 2013-14 State Budget Act, effective March 1, 2014, and provides \$6.3 million in the State General Fund for FY 2014-15 to maintain this grant level.

In addition, the budget proposes a Parent and Child Engagement Demonstration Pilot Program for low-income families who have multiple barriers of entry into the workforce, and do not have access to licensed child care, or who fall into CalWORKs sanction status. The budget proposes a six-county, 2,000-family pilot project, which would cost \$9.9 million in State General Fund dollars in FY 2014-15, assuming March 2015 enrollment of the first cohort of families, and \$115.4 million in State General Fund over three years. **This office is working with DPSS and the Office of Child Care to determine any potential impact to the County.**

Community Care Licensing. The Governor's Budget proposes \$7.5 million and 71.5 new positions statewide for quality enhancement and program improvement in Community Care Licensing investigations and enforcement, which would be funded, in part, by a proposed 10 percent increase in licensing fees. The budget proposal is in response to a number of high-profile incidents at child and adult residential care facilities licensed by the State.

The Department of Children and Family Services (DCFS) indicates that without additional details in the budget, it is unclear at this point whether the proposed funding increase, which is intended to enhance State monitoring of both child and adult care facilities, would improve the safety of children in Los Angeles County. **This office will continue to work with DCFS and other County Departments using State-licensed facilities for elderly care, child care, and probation youth placements, to determine any potential impact to the County as additional information becomes available.**

Child Care and Development Programs. The Governor's Budget does not include any major changes to subsidized child care programs or policies. The budget reflects a total \$9.1 million increase in non-Proposition 98 State General Fund dollars to CalWORKs Stage 2 (\$6.3 million) and Stage 3 (\$2.8 million) Child Care to account for an increase in the cost-per-case and a decrease in caseload in both programs. In addition, the budget includes a decrease of \$9.1 million to Child Care and Development programs to reflect a reduction in Federal funds.

Public Safety

2011 Public Safety Realignment Funding. The Governor's Budget **does not include any additional funding for the AB 109 program over the estimated base allocation for FY 2014-15 of \$934.1 million.** The proposed budget estimates \$64.3 million for AB 109 growth in FY 2013-14 and \$159.8 million in growth for FY 2014-15. Attachment II includes a summary of the 2011 Public Safety Realignment estimates across all accounts.

As in the previous two enacted State budgets, the FY 2014-15 proposed budget includes \$7.9 million to be allocated to county Community Corrections Partnerships to support hiring, retention, training and data improvements, contingent on submission of a

report on program outcome measures and progress towards meeting those measures. **Los Angeles County is eligible to receive \$200,000 for FY 2014-15 under this allocation.**

Jail Construction Funding. The Governor's Budget acknowledges the ongoing impact the 2011 Public Safety Realignment and AB 109 have had on local county jails, many of which are operating under imposed population caps and are aging facilities. In addition to the \$1.7 billion the State has invested in jail construction over the last seven years through AB 900 of 2007 and SB 1022 of 2012, the proposed budget includes an additional \$500.0 million for jail capacity expansion of SB 1022-type facilities, which include non-traditional jail beds such as treatment and reentry facilities. **However, a 10-percent county match will be required and applications will need to supply documentation that the county utilizes pre-trial risk assessments to inform release decisions.** Currently, the County does not operate a robust pre-trial release program using a risk assessment tool.

Split Sentences. The Governor's Budget indicates the Administration will propose legislation to require that all county jail felony sentences to be a split sentence unless the sentencing court finds that a straight sentence serves the best interests of justice.

Long-Term Offenders Sentenced to County Jail. The Governor's Budget acknowledges that lengthy county jail felony sentences are not appropriate for county jail facilities and indicates that the Administration will propose legislation that requires sentences over 10 years will be served in State prison. However, the changes in sentencing will only be implemented if the Administration is successful in meeting the court-imposed State prison population cap by the April 18, 2014 deadline or receives an extension by the Federal three-judge panel.

Three-Judge Panel and Prison Population Reduction. The Governor's Budget outlines ongoing State efforts to meet the Federal three-judge panel's State prison population reduction order by April 18, 2014, including:

- Continued implementation of SB 105 of 2013 which provides \$315.0 million for in-State and out-of-State capacity solutions;
- Continued implementation of SB 82 of 2013 which provides \$206.2 million for the Mental Health Wellness Act that provides funding to counties for mobile crisis teams, crisis stabilization and crisis residential beds for mentally ill individuals;
- Expansion of medical parole to cover larger numbers of inmates with several physical or cognitive conditions;
- Implementation of elderly parole whereby inmates 60 years or older who have served at least 25 years of their sentence can be considered for parole; and

- Credit enhancements for non-violent second strike inmates who can now earn 33.3 percent good-time credits as well as milestone credits for completing rehabilitation programs while incarcerated.

The Governor's Budget indicates that the Administration continues to negotiate with the three-judge panel and plaintiffs to grant the State a two-year extension to meet the population reduction order. If an extension is granted, SB 105 provides that a portion of the \$315.0 million that is unspent on capacity solutions must be deposited in the Recidivism Reduction Fund. The proposed budget estimates that under a two-year extension, approximately \$81.1 million in SB 105 funding would be transferred to the Recidivism Reduction Fund in FY 2014-15. The Governor's Budget proposes that this funding be allocated for: 1) State inmate reentry programs; 2) substance use disorder treatment and cognitive behavioral therapy for parolees and State inmates; 3) integrated services for mentally ill parolees; and 4) a new reentry facility in northern California.

Fire Camps. The Governor's Budget proposes to reduce the daily rate for the Fire Camp contracts from \$46.10 per day to \$10.00 per day for inmates housed in the State-run fire camps to increase utilization of the fire camps as an alternative to jail particularly for those inmates with longer jail sentences.

Probation. The Governor's Budget includes \$128.0 million for FY 2014-15 to fund SB 678 payments to county probation departments. SB 678 of 2009, the California Community Corrections Performance Incentive Act, provides funding to counties that successfully reduce the number of felony probationers that are sent to State prison on new charges. The proposed allocation reflects the changes to the SB 678 formula made by SB 105 of 2013 and represents a significant increase over the amount under the previous formula. **The SB 678 allocations for FY 2014-15 will not be known until next year, but preliminary estimates based on available data are that the Probation Department will receive approximately \$50.0 million for FY 2014-15.**

Trial Courts. The Governor's Budget includes an increase of \$100.0 million statewide to support trial court operations and an additional \$5.0 million to support the State judiciary for FY 2014-15.

Local Law Enforcement Funding. The Governor's Budget provides \$27.5 million for cities to invest in local frontline law enforcement services.

State Hospital Capacity for those Incompetent to Stand Trial. The Governor's Budget includes \$27.8 million to increase capacity by 105 beds at the State hospitals for individuals found incompetent to stand trial who are undergoing competency treatment. This augmentation is intended to help ease waitlists for this population. The proposed budget also indicates that the State will continue to work with counties and other stakeholders on larger systems issues with the incompetent to stand trial population.

General Government

State Mandates. The Governor's Budget proposes to fully eliminate the State's "Wall of Debt," which includes all unpaid costs to local governments, schools, and community colleges for unfunded State mandates, by the end of FY 2017-18. While the Governor's Budget proposes to focus solely on eliminating the school deferral and economic recovery bonds portions of the "Wall of Debt" in FY 2014-15, as well as paying down a portion of the transportation and Cap and Trade loans in FY 2014-15, the Administration has indicated that all remaining components of the "Wall of Debt," including all mandate deferrals, will be paid off by the end of FY 2017-18. An approximate \$180.0 million is due to the County for deferred mandate costs incurred prior to FY 2003-04.

Attachment III includes a summary of the components of the State's "Wall of Debt" as well as a timeline for the Administration's repayment proposal.

State-County Assessors' Partnership Agreement Program. The Governor's Budget proposes to establish a three-year grant pilot program that will be administered by the California Department of Finance and that will be focused on enhancing local property tax assessment efforts. The State-County Assessors' Partnership Agreement Program will be funded by \$7.5 million in State General Fund dollars and will be limited to a total of nine county assessors' offices. The nine counties competitively selected to participate in the pilot program will be a mix of urban, suburban, and rural counties and, as a condition of participating in the program, counties must agree to provide their assessors' office with a specified, but yet undetermined, amount of matching funds in each of the program's three years in order to generate additional property tax revenues for local agencies. Upon conclusion of the pilot program and subsequent to an evaluation of the program's results by the Department of Finance, the Administration and Legislature will determine whether or not to continue the program and to what extent. **The Assessor's Office indicates that it is not yet known whether or not the County would be chosen to participate in the pilot program; however, the impact of this proposal would be a positive one and as a result, the Assessor would be interested in submitting an application for consideration.**

Redevelopment

The Governor's Budget notes that with the elimination of 400 redevelopment agencies (RDAs) in 2012, approximately \$620 million was returned to cities, \$875 million to counties, and \$310 million to special districts between FY 2011-12 and FY 2012-13. The proposed budget anticipates that cities will receive an additional \$525 million in general purpose revenues in FY 2013-14 and FY 2014-15 combined, with counties receiving \$605 million and special districts \$205 million.

The Administration estimates Proposition 98 State General Fund savings as a result of the dissolution of the former RDAs will be \$1.1 billion in FY 2013-14 and \$785 million in FY 2014-15. The Governor's Budget plan assumes ongoing State General Fund savings of approximately \$1.0 billion annually.

The Governor's Budget reports that the complex process of winding-down the former RDA's has proceeded to where approximately 300 redevelopment successor agencies have received their Finding of Completion from the Department of Finance, indicating that they have completed the required due diligence reviews and paid all unobligated balances to the affected taxing agencies. However, recent court decisions regarding the constitutionality of the various provisions of the RDA dissolution statutes, if finalized and upheld, would put more than \$3.0 billion of these funds at risk. There are also over 100 active lawsuits challenging other aspects of the RDA dissolution statutes which also could have a significant fiscal impact.

Economic Development

The Governor's Budget indicates that in the absence of redevelopment, there continue to be tools available for local governments to engage in economic development including: 1) issuance of general obligations bonds; 2) issuance of lease revenue bonds; 3) increase in local tax rates; and 4) infrastructure financing districts.

The budget proposes expanding the tax increment financing tool utilized by Infrastructure Financing Districts (IFDs) for a broader array of projects than those which are allowed under current law. The Administration proposes legislation to:

- Expand the types of projects that IFDs can fund to include military base reuse, urban infill, transit priority projects, affordable housing, and associated consumer services;
- Lowering the voter approval threshold for these new IFDs to 55% for cities and counties that have received a Finding of Completion from the Department of Finance, are in compliance with all State Controller Office RDA findings, and that have resolved all legal issues regarding the RDA wind down process;
- Allow new IFD project areas to overlap with former RDA project areas (but limit available tax increment funding to funds available after payment of former RDA obligations); and
- Maintain the current prohibitions on diversions of property tax revenues from K-14 schools.

The Governor's Budget proposals will not change existing law which requires that entities seeking to establish an IFD to obtain approval of the county, city, or special districts that would contribute their property tax revenue to the IFD.

Many of these proposals were included in bills introduced by the Legislature in 2013. However, these proposals either did not pass the Legislature or were vetoed because they were part of larger proposals that the Governor felt would have prematurely made significant changes to the redevelopment dissolution statutes.

Environment and Natural Resources

Cap and Trade Funding. The Governor's Budget proposes to invest \$850 million of Cap and Trade auction proceeds to support existing and pilot programs that will promote greenhouse gas (GHG) emission reductions by modernizing the State's rail system (including high-speed rail), encouraging local communities to develop sustainably, reduce transportation emissions, and increasing water and electricity efficiency. This amount includes repayment of \$100 million of the \$500 million loan to the State General Fund in 2013 with the remaining balance to be repaid within the next few years.

Specifically, the Governor proposes investments in the following programs:

- \$300.0 million for rail modernization (\$250.0 million for high-speed rail and \$50.0 million for capital improvements for existing rail systems);
- \$100.0 million in local assistance funding to support local communities in the implementation of the sustainable communities strategies required by SB 375 (Chapter 728, Statutes of 2008);
- \$200.0 million to accelerate the transition to low carbon freight and passenger transportation, with a priority for disadvantaged communities;
- \$140.0 million for energy efficiency and clean energy programs such as weatherization upgrades, renewable energy projects, construction of zero net energy state buildings, and water and infrastructure efficiency projects; and
- \$110.0 million for natural resources and waste diversion, including wetlands and coastal watershed restoration, fire prevention in urban forests, and incentives for capital investments that expand waste management infrastructure.

The allocation of \$100.0 million to support implementation of SB 375 projects will be targeted to projects that reduce GHG emission by increasing transit ridership, active transportation (walking/biking), transit-oriented development with affordable housing, preservation of agricultural land, and local planning that promotes infill development and reduction of number of vehicle miles travelled.

The Department of Public Works reports that this allocation may provide opportunities for competitive grants for pedestrian, bikeway, and transit projects within the County.

The Department also indicates that the financial incentives for capital investments that expand waste management infrastructure will include resources for new or expanded clean composting and anaerobic digestion facilities to divert more organic materials from landfills. This is consistent with the State's

proposals to require separate organics collection and could potentially benefit the County if funding is made available to projects developed in Los Angeles County.

Water Issues. The Governor's Budget proposes \$618.7 million in strategic investments to begin implementing the California Water Action Plan's goals of water reliability, restoration and resilience. This includes \$7.8 million to expand water storage capacity, \$11.0 million to provide safe drinking water in disadvantaged communities, \$20.0 million for water and energy efficiency programs, \$30.4 million to protect and restore ecosystems, \$77.0 million to increase flood protection, and \$472.5 million to provide grants to support local projects that increase regional self-reliance and sustainable water resources.

The Governor's Budget also proposes transferring the Drinking Water Program from the Department of Public Health to the Water Board to improve the efficiency and effectiveness of drinking water, ground water, water recycling and water quality programs.

The Department of Public Works Water Resources Branch reports that it is primarily funded from revenues generated through service charges and assessments on properties and their funding is not subject to State control and therefore does not anticipate any negative impacts from the Governor's water related proposals. However, DPW's operations do require it to interact with State agencies for the purposes of obtaining various types of permits, grant funding, disaster coordination, etc. Because, in general, it appears that most State departments will see an increase in funding and in staffing levels, DPW notes that this could result in a decrease in the amount of time required for processing permits and other administrative matters.

Beverage Container Recycling Program Reform. The Governor's Budget proposes several programmatic changes necessary to ensure the fiscal integrity of the Beverage Container Recycling Program, which is currently exceeding its revenue by approximately \$100.0 million. Specifically the Budget proposes a three-year phase out of processing fee subsidies, eliminating fee payments to processors and recyclers, redirecting funds to support local recycling and to deter fraud, and diversifying funding for local conservation groups.

The Department of Public Works (DPW) reports that these are significant changes to the existing program, including the elimination of the City/County Payment program, through which DPW receives direct grants of approximately \$300,000 annually. The grants support programs and activities that encourage recycling and discourage littering and illegal dumping in the unincorporated areas of the County. DPW also notes that other funds previously budgeted through the Beverage Container Recycling Program are also being curtailed or redirected, which may impact funding for

recycling and litter reduction. For example, a reduction in payments to recyclers and waste haulers may increase costs for waste and recycling collection by the County and may reduce the market for recycling, leading to additional plastic and glass containers being disposed or dumped rather than recycled.

Transportation

The Governor's Budget recommends focusing on three transportation infrastructure priorities: 1) maintaining existing transportation infrastructure; 2) modernizing rail; and 3) supporting local governments as they implement sustainable communities plans pursuant to SB 375 (Chapter 728, Statutes of 2008). The budget proposes allocating \$250 million in Cap and Trade funding to the High-Speed Rail Authority and \$100 million for investment in transit-oriented development, active transportation, agricultural-land preservation and related planning efforts.

The budget also includes \$351.0 million in early State General Fund loan repayments, \$337 million of which will be used to accelerate preservation and maintenance projects on State highways and local roads. These funds are allocated as follows:

- \$110.0 million to fund pavement rehabilitation projects on state highways;
- **\$100.0 million to cities and counties for preservation of local streets and roads;**
- \$100.0 million for traffic management mobility projects;
- \$27.0 million for highway pavement maintenance;
- \$9.0 million for active transportation projects; and
- \$5.0 million for environmental mitigation.

The Department of Public Works indicates that it expects to receive supplemental revenues of approximately \$10.0 million to the County Road Fund from early repayment of prior transportation loans to the State General Fund. These funds would be used for the repair, maintenance and preservation of streets and roads in the unincorporated areas. This additional revenue will partially offset the expected loss in gas tax revenues attributed to downward adjustment of the new gas tax rate and lower consumption of gasoline projected in FY 2014-15.

The Department of Public Works (DPW) reports that the Governor's Budget proposes to continue to transfer approximately \$71.0 million of miscellaneous State Highway Account revenues to the General Fund transportation debt service on specified general obligation transportation bonds. The use of non-excise tax for this debt service was authorized through FY 2012-13 and the Administration's budget proposal continues this policy to transfer a portion of non-excise taxes State Highway Account revenues on a

permanent basis. The Governor's Budget also continues to transfer approximately \$140.0 million in new Highway User Tax Account (HUTA) revenue related to Off-Highway Vehicles (OHVs), Harbors and Watercraft, and Food and Agriculture back to transportation purposes. According to DPW, the California State Association of Counties has indicated that it will pursue a coalition effort to sunset the share of new HUTA revenue related to OHVs back to transportation purposes so as to uphold the fundamental promise made in the fuel tax swap.

Other State Budget Proposals of County Interest

Unemployment Insurance Program. The Governor's Budget includes decreases in Unemployment Insurance (UI) benefits of \$251.8 million in FY 2013-14 and \$3.2 billion in FY 2014-15, which reflect a drop in the State's unemployment rate and the expiration of the Federal benefits extension program, which impacts approximately 222,000 Californians.

The Governor's Budget also reflects a payment of \$231.6 million in State General Fund moneys to cover the 2014 interest payment of Federal Unemployment Account loans the State began taking in 2009 in order to supplement the State's UI fund and cover benefits. The UI Fund deficit, projected to reach \$8.8 billion in 2014, is part of the State's larger long-term liabilities. The budget indicates that key stakeholders, convened in February 2013, will continue to work on a solution to return the UI Fund to solvency and repay the Federal loan. Potential solutions include the creation of a reserve by 2021, reforms to the UI program, and financial structural changes that would be phased-in so as to lessen impact on employers.

Rainy Day Fund. In order to strengthen the State's Budget Stabilization Account, as created by the Proposition 58 Rainy Day Fund approved by voters in 2004, the Governor's Budget proposes a constitutional amendment to better manage revenue fluctuations and strengthen reserve funds. Major components include:

- Basing deposits into the reserve on capital gains revenues that rise over 6.5 percent of General Fund tax revenues;
- Creating a Proposition 98 reserve where notable funding increases would be saved for future years of decline. This would not alter the guaranteed level of funding dedicated to schools under Proposition 98;
- Doubling the maximum size of the Rainy Day Fund from 5 percent to 10 percent of revenues;
- Allowing supplemental payments to the "Wall of Debt" or other long-term liabilities in lieu of a year's deposit; and

- Limiting the maximum amount that could be withdrawn in the first year of a recession to half of the fund's balance. This would ensure that the State does not overly rely on the fund at the start of a downturn.

The Administration will work with the Legislature to place the proposed constitutional amendment on the November 2014 ballot. This constitutional amendment would replace ACA 4 of 2010, a measure which also aimed to stabilize the State Budget and is currently scheduled to appear on the ballot in November 2014. In the interim, the budget reflects a \$1.6 billion deposit into the existing Rainy Day Fund, the first deposit since 2007.

K-12 Education. The Governor's Budget includes \$61.6 billion for K-12 Proposition 98 funding in FY 2014-15, an increase of \$6.3 billion over the FY 2013-14 Budget Act and equates to \$12,833 in per pupil expenditures in FY 2014-15. The budget proposes to eliminate all remaining budgetary deferrals to K-12 schools by paying down the remaining \$2.2 billion in inter-year deferrals. Finally, the proposed budget continues to make investments in the Local Control Funding Formula by providing a \$4.5 billion increase for the second year of implementation, which includes a \$25.9 million increase to the funding formula for county offices of education.

Higher Education. The Governor's Budget provides \$7.2 billion in Proposition 98 funding for the California Community Colleges, an increase of \$489.4 million over the FY 2013-14 funding levels. In addition, the proposed budget includes an increase to the California State University and University of California systems of \$142.2 million each to stabilize those institutions and ensure there are no increases in student tuition and fees.

Governor's FY 2014-15 Budget 2011 Public Safety Realignment Estimates

(Dollars in Millions)

	2012-13	2012-13 Growth	2013-14	2013-14 Growth	2014-15	2014-15 Growth
Law Enforcement Services	\$1,942.6		\$2,124.3		\$2,075.4	
Trial Court Security Subaccount	496.4	11.6	508.0	8.6	516.6	21.3
Enhancing Law Enforcement Activities Subaccount ¹	489.9		489.9		489.9	
Community Corrections Subaccount ²	842.9	86.7	998.9	64.3	934.1	159.8
District Attorney and Public Defender Subaccount ²	14.6	5.8	17.1	4.3	15.8	10.7
Juvenile Justice Subaccount	98.8	11.6	110.4	8.6	119.0	21.3
Youthful Offender Block Grant Special Account	(93.4)	(11.0)	(104.3)	(8.1)	(112.4)	(20.1)
Juvenile Reentry Grant Special Account	(5.5)	(0.6)	(6.1)	(0.5)	(6.6)	(1.2)
Growth, Law Enforcement Services	115.7	115.7	85.8	85.8	220.3	220.3
Mental Health ³	1,120.6	10.7	1,120.6	8.0	1,120.6	19.8
Support Services	2,604.9		2,829.3		2,996.1	
Protective Services Subaccount	1,640.4	176.2	1,837.0	98.5	1,950.8	191.8
Behavioral Health Subaccount ⁴	964.5	27.9	992.3	52.8	1,045.3	184.3
Women and Children's Residential Treatment Services	(5.1)		(5.1)		(5.1)	
Growth Support Services	214.8	214.8	159.3	159.3	395.9	395.9
Account Total and Growth	\$5,998.6		\$6,319.3		\$6,808.3	
Revenue						
1.0625% Sales Tax	5,516.6		5,880.5		6,311.2	
Motor Vehicle License Fee	482.0		438.8		497.1	
Revenue Total	\$5,998.6		\$6,319.3		\$6,808.3	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

¹ Allocation is capped at \$489.9 million.

² 2012-13 and 2013-14 growth is not added to subsequent fiscal year's subaccount base allocations.

³ Growth does not add to base.

⁴ The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.

**GOVERNOR'S FY 2014-15 PROPOSED STATE BUDGET
PROPOSED TIMELINE TO ELIMINATE THE STATE'S "WALL OF DEBT"
(In Billions)**

	<u>End of 2010-11</u> ⁽¹⁾	<u>End of 2013-14</u> ⁽²⁾	<u>End of 2014-15</u> ⁽³⁾	<u>End of 2017-18</u> ⁽³⁾
Deferred Payments to Schools and Community Colleges	\$10.4	\$6.1	\$0.0	\$0.0
Economic Recovery Bonds	\$7.1	\$3.9	\$0.0	\$0.0
Loans From Special Funds	\$5.1	\$3.9	\$2.9	\$0.0
Unpaid Costs to Local Governments, Schools and Community Colleges for State Mandates ⁽⁴⁾	\$4.3	\$5.4	\$5.4	\$0.0
Underfunding of Proposition 98	\$3.0	\$2.4	\$1.8	\$0.0
Borrowing From Local Governments (Proposition 1A)	\$1.9	\$0.0	\$0.0	\$0.0
Deferred Medi-Cal Costs	\$1.2	\$1.8	\$1.7	\$0.0
Deferral of State Payroll Costs from June to July	\$0.8	\$0.8	\$0.8	\$0.0
Deferred Payments to CalPERS	\$0.5	\$0.4	\$0.4	\$0.0
Borrowing From Transportation Funds (Proposition 42)	\$0.4	\$0.2	\$0.1	\$0.0
TOTAL	<u><u>\$34.7</u></u>	<u><u>\$24.9</u></u>	<u><u>\$13.1</u></u>	<u><u>\$0.0</u></u>

Notes:

(1) Figures as of 2011-12 May Revision.

(2) Estimates based on 2013 Budget Act Policies.

(3) Estimates based on 2014-15 Governor's Budget.

(4) Approximately \$180.0 million is due to the County for deferred State mandate costs incurred prior to FY 2003-04.